

CONFIDENTIAL SUBJECT TO THE PROTECTIVE ORDER

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK**

FRONTIER AIRLINES, INC.

Plaintiff

v

AMCK AVIATION HOLDINGS
IRELAND LIMITED, ACCIPITER
INVESTMENT 4 LIMITED,
VERMILLION AVIATION (TWO)
LIMITED, WELLS FARGO TRUST
COMPANY, N.A., solely in its capacity
as OWNER TRUSTEE, and UMB
BANK, N.A., solely in its capacity as
OWNER TRUSTEE,

Defendant(s)

Case No. 1:20-cv-09713

SUPPLEMENTAL STATEMENT BY

DR. KEVIN NEELS

ON BEHALF OF

FRONTIER AIRLINES, INC.,

NOW PUBLICLY TRADED AS

FRONTIER GROUP HOLDINGS, INC.

OCTOBER 28, 2022

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1. I filed an expert report in this matter regarding the economic injury suffered by Frontier Group Holdings, Inc. (“Frontier”) as a result of the unilateral decision by AMCK Aviation Holdings and its co-defendants (“AMCK”) on May 8, 2020 to terminate the Framework Agreement they had entered into with Frontier only a few months before.¹ In Paragraph 7 of my expert report, I reserved the right to update and/or modify these opinions if new information becomes available. In this supplement to my report, I am providing a brief update to my opinion based on new information that recently came to my attention.
2. In Paragraph 48 of my expert report, I reported that I had been unable to obtain information on Frontier’s weighted average cost of capital, or “WACC,” as of the 2nd quarter of 2020, which is the most relevant time period to the calculation of damages, as the termination of the Framework Agreement occurred on May 8, 2020. As I explained, Frontier was a privately held company until early 2021. More precisely, shares for Frontier Group Holdings Inc. began trading on the NASDAQ exchange on April 1, 2021 under the ticker symbol “ULCC.”²
3. When I initially searched in Bloomberg for information related to Frontier’s cost of capital, I searched for “Frontier Airlines.” This search yielded results pertaining to the ticker symbol “FRNTQ,” which is the ticker under which a previous incarnation of Frontier traded, but which was delisted and acquired prior to the events that are the subject of this dispute. For this ticker, Bloomberg did not contain any information about Frontier’s WACC around the time that AMCK terminated the Framework Agreement, which was consistent with my understanding that Frontier was a privately held company at that time.
4. During my deposition in this matter, which took place on October 25th, 2022, counsel for AMCK asked a question about whether I had searched for Frontier Airlines or Frontier Holdings.³ This prompted me to revisit the question of whether I could obtain information on Frontier’s WACC

¹ Expert Report of Dr. Kevin Neels, September 9, 2022 (“Neels Expert Report”).

² See, e.g., “Frontier Announces Pricing of Initial Public Offering”, Frontier News Release dated April 1, 2021, available at <https://ir.flyfrontier.com/news-releases/news-release-details/frontier-announces-pricing-initial-public-offering>.

³ I do not currently have access to the transcript of my deposition, which prevents me from providing the exact question that was asked.

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from Bloomberg. I therefore double-checked whether there was any information on the Bloomberg Terminal about Frontier's WACC, this time using the current ULCC ticker as my search criterion. I found that Bloomberg does in fact contain information on Frontier's WACC, reporting it on dates that correspond to the end of each quarter since the first quarter of 2021 (on the eve of its initial public offering) and to the end of the two preceding calendar years.⁴ There is also an entry reflecting the WACC as of October 27th, 2022, the day I accessed it. The entries described are all provided below, in Table S-1, in reverse chronological order. In each column, the WACC is provided (column [A]), along with its components – the after-tax cost of debt (column [B]) and the cost of equity (column [C]).

TABLE S-1: FRONTIER GROUP HOLDINGS, INC. (TICKER: ULCC) WACC

Date	WACC [A]	Cost of Debt (After Tax) [B]	Cost of Equity [C]
10/27/2022	5.4982	2.9756	8.9068
9/30/2022	6.3303	2.9011	10.9640
6/30/2022	6.9700	4.1428	10.8192
3/31/2022	6.4132	3.2276	9.9909
12/31/2021	6.3300	1.8701	10.6437
9/30/2021	5.8970	0.9771	10.0442
6/30/2021	6.2338	1.7042	9.6555
3/31/2021	6.3833	1.9656	9.4646
12/31/2020	1.8405	1.0445	8.5468
12/31/2019	3.1099	1.9654	8.4018

Sources and Notes: Bloomberg. As of 10/27/2022 at 3:46 P.M. ET.

Percentage signs are omitted.

5. I offer a number of observations about the WACC and cost of debt values in this table, particularly as they relate to the respective values that I used in my report.
6. First, all but two of the WACC values in column [A] of Table S-1 are of a similar magnitude to the 7.09% regression-based value I used in calculating the WACC-based damages in my report.⁵

⁴ Typically, WACC calculations reported in third-party sources rely on public data which are more readily available from publicly traded companies. However, when privately held companies go public, they frequently release information on recent financial results for prior periods in which they were privately held, which permits retrospective calculations of WACC.

⁵ See, for example, Table 9 of Neels Expert Report on p. 31.

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Likewise, all of the WACC values in column [A] are lower than 7.09%. In particular, the 2020 value of 1.8405%, and the 2019 value of 3.1099%, are well below the value I used in my report. These facts show that the approach I took in calculating WACC yielded reliable and conservative results that actually *overstate* the after-tax WACC of Frontier during the relevant time period.

7. Second, as I explained in my report, a debt-based interest rate is a more appropriate discount rate to use than a WACC-based discount rate.⁶ Accordingly, I relied on information from a loan agreement Frontier entered into on September 28, 2020 to calculate the debt-based discount rate I used in my calculations.⁷ This approach yielded an interest rate of 2.87%, which I proceeded to use as the pre-tax discount rate.⁸ In order to compare the loan-derived value to the values in column [B] of Table S-1 above, it must first be converted to an after-tax discount rate; doing so using the tax rate I calculated for Frontier in 2019 results in an after-tax discount rate of 2.22%.⁹ According to calculations based on the public filings Frontier made in advance of its initial public offering, the 2020 value for the after-tax cost of debt, presented in column [B] of Table S-1, is 1.0445%. This is similar to the 2.22% value in my initial report but still less than half of the value for the after-tax cost of debt that I used in my preferred damages calculations. This again shows my calculations were reliable and, if anything, conservative.
8. The results of discounted cash flow calculations are generally sensitive to the discount rate used. In Table S-2 below, I present the results of my damages calculations using a variety of defensible discount rates, in order to quantify the effects on damages if I had instead used discount rates based on recently discovered information reported in Bloomberg. Column [A] presents damages calculated using a debt-based discount rate, while column [B] presents damages calculated using a WACC-based discount rate. In row [1], I present the damages figures I calculated in Tables 17 and 18 of my report. In row [2], I present the damages totals that result if I instead use the 2020 values for after-tax cost of debt and WACC from Table S-1. Finally, in row [3], I present the results if I instead use the value from June 30, 2021, which is the first value that fully reflects

⁶ Neels Expert Report, Paragraph 27.

⁷ Neels Expert Report, Paragraphs 46-47.

⁸ Neels Expert Report, Paragraph 46.

⁹ $2.87\% \times (1 - 22.8\%) \approx 2.22\%$. I calculate a 22.8% tax rate for Frontier in 2019. Neels Expert Report, Table 10 on p. 31.

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Frontier's new status as a publicly traded entity. All other aspects of the approach I took in the calculations presented in my report remain unchanged.

TABLE S-2: SUMMARY OF PRE-TAX DAMAGES (IN THOUSANDS) UNDER ALTERNATIVE DISCOUNT RATES

		Damages Calculated Using:	
		Cost of Debt	WACC
		[A]	[B]
Expert Report	[1]	\$43,941	\$35,982
2020 Value	[2]	\$46,364	\$44,693
End of the First Post-IPO Quarter (6/30/21)	[3]	\$44,972	\$37,175

Sources and Notes:

[1][A]: Neels Expert Report at Table 17, Row [9].

[1][B]: Neels Expert Report at Table 18, Row [9].

[2][A]: I calculated this using the same model I used for the calculations in my report, but I used a debt-based after-tax yearly discount rate of 1.0445%. See Table S-1.

[2][B]: I calculated this using the same model I used for the calculations in my report, but I used a WACC-based yearly discount rate of 1.8405%. See Table S-1.

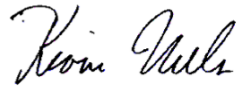
[3][A]: I calculated this using the same model I used for the calculations in my report, but I used a debt-based after-tax yearly discount rate of 1.7042%. See Table S-1.

[3][B]: I calculated this using the same model I used for the calculations in my report, but I used a WACC-based yearly discount rate of 6.2338%. See Table S-1.

9. Using this new information on Frontier's cost of debt and WACC increases the calculated damages. Using discount rates based on 2020 data, which are the most conceptually appropriate as they correspond to the timing of AMCK's decision to terminate the Framework Agreement, yields substantially higher damages than in my report. Damages using the 2020 debt-based discount rate reported in Bloomberg are roughly \$2.4 million higher than the corresponding damages from my report, while damages using the 2020 WACC reported in Bloomberg are roughly \$8.7M higher than those calculated using the regression-based WACC I employed in my report.
10. The cost of capital information from 2021, that was not known or knowable at the time of the harmful act alleged in this dispute, demonstrates that my conclusions for both the cost of debt, and the WACC-based discount rates determined through regression analysis are conservative. Row [3] of Table S-2 results in damages that exceed the corresponding damages I calculated in my report, which are reproduced in Row [1] of Table S-2.

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11. This new information confirms the accuracy and reliability of the damage calculation set forth in my original report, and implies, if anything, that Frontier's actual damages are even higher than the amounts set forth there.



St. Petersburg, FL
October 28, 2022